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U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

June 6, 2001

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Dear Democratic Colleague:

Please consider the attached study prepared by the Democratic staff of the Budget Committee. It shows that the tax cut that President Bush will sign into law today virtually exhausts the available surplus in 2003 through 2006, thereby jeopardizing Social Security and Medicare. Furthermore, the surpluses in 2001 and 2002 are small enough, even with a \$33 billion gimmick that inflates the 2002 figure, that additional tax cuts would undermine Social Security and Medicare in those years as well.

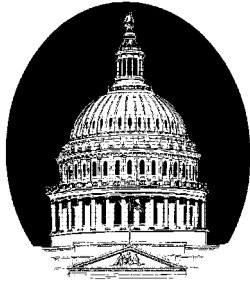
Even using the Republican budget resolution's implausible spending numbers, the tax cut is so large that there is no money to modernize the military, provide an adequate Medicare prescription drug benefit, improve education, help when natural disasters strike, or strengthen Social Security before the baby boom retires. It goes without saying that surpluses below those currently projected would make the situation even worse.

I cannot emphasize strongly enough that this study takes at face value the numbers in the Republican budget resolution and the tax cut. No adjustment has been made for the budget gimmicks in those two pieces of legislation that obscure their true cost. Obviously, if we used the cost of the tax cut without all its phase-ins, sunsets, and timing shifts, the analysis would show an even more precarious situation.

If you have any questions, do not hesitate to contact me or the Budget Committee staff, Extension 6-7200 or www.house.gov/democrats_democrats/.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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June 7, 2001

Bush Tax Cut Leaves Nothing for Defense, Social Security Reform, Prescription Drugs, or Education

The tax cut the President Bush will sign into law today exhausts the available surplus in 2003 through 2006 and jeopardizes the solvency of Social Security and Medicare. This is true even assuming the implausible spending numbers in the Republican budget resolution. The excessive tax cut means that funding priorities like defense modernization, a Medicare prescription drug benefit, or education—priorities that even Republicans support—will require a choice between two equally undesirable outcomes. Either the resources must come from funds already dedicated to Social Security and Medicare or funding of other national priorities must be severely cut—simply because the tax cut is too big.

The table below shows that, even taking at face value the Republican budget resolution's assumption that appropriations will grow more slowly than inflation over the next five years, the recently passed Bush tax cut reduces the surplus outside of Social Security and Medicare essentially to zero in 2003 through 2006—two years into the *next* Presidential term. In addition, the surpluses in 2001 and 2002 are small enough, even with a \$33 billion gimmick that inflates the 2002 figure, that additional tax cuts would jeopardize Social Security and Medicare in those years as well.

The table also shows that even a conservative estimate of the defense buildup and minimal funding for unforeseen natural disasters cause the trust fund surpluses of Social Security and Medicare to be spent unless other appropriations face severe cuts. It goes without saying that surpluses below current projections would make the situation even worse.

Non-Social Security, Non-Medicare Surplus

Billions of Dollars

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
CBO Baseline	56	92	95	125	155	173	225
With Republican Budget and Tax Cut*	NA	6	24	-5	-2	4	13
With Added Spending for Defense and Disasters*	NA	6	8	-30	-36	-39	-37

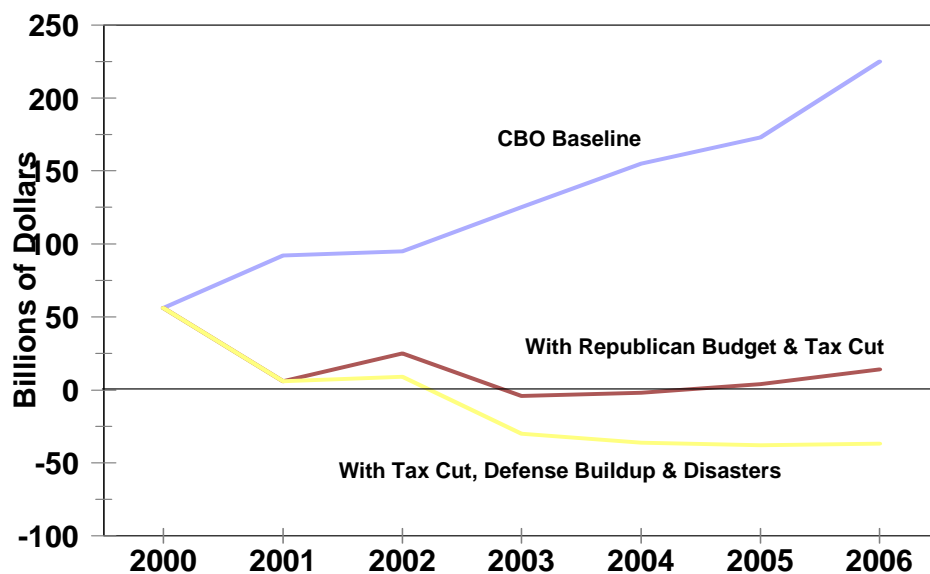
* See Explanatory Note at end of document for technical assumptions.

One might quibble with the precise cost assumed in the table for the defense buildup or natural disasters. However, the fact remains that the tax cut leaves no money at all in 2003 and 2004 and only a paper-thin margin thereafter. Any assumption about the cost of defense modernization and natural disasters comes to the same result.

Obviously, if Congress also provides additional funding for education, which the Republican budget resolution does not assume, the tax cut makes the hole even deeper. Similarly, the tax cut leaves no resources to strengthen Social Security, whether through privatization or bolstering the existing system. And, there is no money left to provide an adequate Medicare prescription drug benefit because of the tax cut's excessive size.

Democrats have consistently warned that this would be the consequence of Republicans' fixation on over-sized tax cuts at the expense of all else. Democrats implored Republicans to recognize that bipartisan majorities favor increased funding for education, prescription drugs, defense modernization—not to mention lending Americans a helping hand when disaster strikes. Funding these priorities has always been both desirable and inevitable. Even Republicans will not make program cuts elsewhere to make room for these priorities. For this reason, the tax cut will undermine Social Security and Medicare. The money that we knew we would need is gone.

Surplus Outside of Social Security and Medicare



Explanatory Note: This analysis uses the latest official estimates of the Congressional Budget Office (CBO), released May 17, 2001, to calculate the non-Social Security, non-Medicare surplus or deficit. The analysis includes the policies in the Republican budget resolution, adjusted to reflect the enacted tax bill (H.R. 1836) rather than the tax cut originally assumed in the resolution. The analysis takes at face value the funding levels for appropriations in the budget resolution. Likely future emergencies were assumed to be \$5.6 billion in budget authority (the average of domestic emergencies assumed in the original House Republican budget resolution) for 2002 and adjusted for inflation thereafter. The defense increase assumes \$20 billion in budget authority above the Republican budget resolution for 2002, with gradual increases to \$50 billion above the budget resolution level for 2007, for a total of \$200 billion over six years (the low end of the range of the Pentagon's contemplated increases reported in the *USA Today* on April 27). All levels shown in the table and graph are outlays.